Report

of the

Examination of

LaPrairie Mutual Insurance Company

Janesville, Wisconsin

As of December 31, 2002

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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October 3, 2003

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2002, of the affairs and financial condition of:

LA PRAIRIE MUTUAL INSURANCE COMPANY
JANESVILLE, WISCONSIN

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1998 as of December 31, 1997. The current examination covered the intervening time period ending December 31, 2002, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on July 3, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mutual Fire Insurance Company of the Town of LaPrairie. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail and nonproperty insurance. The company is currently licensed to write business in the following counties:

Dane	Green
Rock	Walworth

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance premium basis.

Business of the company is acquired through five agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All policy types generated by agents contracted prior to 3/1/01	15 %
All policy types generated by agents contracted after 3/1/01 on the first $50,000 of Annual Premium Written.	12
All policy types generated by agents contracted after 3/1/01 on Annual Premium Written exceeding $50,000	15

According to the company, the above schedule demonstrates LaPrairie's goal of maintaining a stable number of policies in-force. The company uses this commission schedule to limit operations to independent agents who, according to the company, are committed to LaPrairie. Agents contracted prior to March 1, 2001, were under the previous commission schedule of $75 per farmowner policy, $35 per homeowner policy and 20% commission rate for liability policies. Thus, the board believes that agents that operated under the previous commission schedule have proven their commitment to the company by having served under the company for several years with substantially lower commissions than those offered by other insurers.

In general, agents do not have the authority to adjust losses. However, the Secretary -Treasurer of the company (who is also an agent) does have the authority to adjust losses up to $100,000. Losses in excess of $100,000 are investigated by Grinnell Mutual

Reinsurance Corporation. The company employs one part-time adjuster. The adjuster receives $15 per hour for each loss adjusted with a $15 minimum plus $.36 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
James V. Huisheere	Farmer, President	Beloit, WI	2006
Richard E. Hahn	Retired, Vice President	Clinton, WI	2004
Georgia L. Weis*	Office Manager, Insurance Agent, & Secretary-Treasurer	Milton, WI	2004
Joseph M. Weis	Retired	Janesville, WI	2006
Mary J. Schulze	Office Assistant	Janesville, WI	2006
Charles Carlson	Plant Manager	Darien, WI	2004
Richard M. O'Leary	Farmer, retired policeman	Janesville, WI	2005
Whilden B. Hughes Jr.	Farmer	Janesville, WI	2005
Lin Howard	Clinic Office Manager	Beloit, WI	2005

* Directors who are also agents are identified with an asterisk.

Members of the board currently receive $40 for each meeting attended and $.36 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2002 Compensation
James V. Huisheere	President	$1,920.00
Richard E. Hahn	Vice President	152.85
Georgia L. Weis	Secretary-Treasurer & Office Manager	36,804.72

The compensation shown above for the Secretary-Treasurer includes salary for the position of Office Manager, but does not include commissions received from acting as an agent for the company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
Georgia Weis
Richard Hahn
Bill Hughes

Finance Committee
Richard Hahn
Charlie Carlson
Georgia Weis

Employee Benefit/Salary Committee
Charlie Carlson
Lin Howard
Jim Huisheere

The minutes of the Board of Directors did not identify any committee chairs.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2002	$283,381	1,004	$(5,528)	$1,587,034	$1,337,003
2001	274,910	930	11,211	1,612,613	1,405,348
2000	264,274	920	(97,469)	1,587,833	1,396,952
1999	256,010	905	60,720	1,646,136	1,464,597
1998	251,154	921	(30,163)	1,655,970	1,434,648
1997	278,086	951	(109,637)	1,616,660	1,459,833

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Net	Writings Ratios Gross
2002	$475,536	$319,238	$1,337,003	24%	36%
2001	410,689	284,691	1,405,348	20	29
2000	387,779	265,360	1,396,952	19	28
1999	369,452	257,000	1,464,597	18	25
1998	369,587	258,764	1,434,648	18	26
1997	367,267	272,338	1,459,833	19	25

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Com-posite Ratio
2002	$160,671	$189,294	$283,381	57%	59%	116%
2001	186,976	154,984	274,910	68	54	122
2000	318,718	139,467	261,274	122	53	175
1999	140,688	127,586	256,010	55	50	105
1998	214,104	144,277	251,154	85	56	141
1997	330,801	132,245	278,086	119	49	168

In 2002, the insurer had the highest Net Earned Premiums during the examination period. This is due to an increase in rates and policies sold.

However, the company has incurred an Underwriting Loss in nine out of the last eleven years, with underwriting losses in the last six consecutive years. Other Underwriting Expenses has increased from the year end 2000 due to a change in agent commissions in 2001.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 2003
Termination provisions:	At the end of the calendar year by either party giving no less than 90 days notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Individual Occurrence of Loss
	Lines reinsured:	Property
	Company's retention:	$100,000
	Coverage:	100% of an individual occurrence loss above the company’s retention. 100% of losses caused by Earthquakes 100% of losses due to Pollution Clean up or Removal
	Reinsurance premium:	$.0118 per $1,000 of Adjusted Gross Fire Risk in Force at the end of each month during the contract year.
2.	Type of contract:	Aggregate Excess Reinsurance
	Lines reinsured:	Property
	Company's retention:	$396,038 with the agreement to comply with s. Ins 13.09, Wis. Adm. Code
	Coverage:	100% of the “aggregate net loss”, in excess of defined “retention limit.”
	Reinsurance premium:	$.0406 per $1,000 of Adjusted Gross Fire Risk in force at the end of each month during the contract year.
3.	Type of contract:	Facultative Section
	Lines reinsured:	Property
	Company's retention:	Item determined on a per risk basis
	Coverage:	Item determined on a per risk basis

	Reinsurance premium:	Item determined on a per risk basis
4.	Type of contract:	Liability
	Lines reinsured:	Liability
	Company's retention:	none
	Coverage:	Reinsurer assumes 100% of the risk
	Ceding commission:	20%

LaPrairie Mutual also receives commissions from Grinnell Mutual Reinsurance contingent upon LaPrairie's loss ratio for liability policies ceded to Grinnell. This amount is equal to 10% of the net profit for the liability policies LaPrairie sold and ceded.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement. One reclassification was made as a result of the examination is noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

LaPrairie Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2002

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 91	$	$	$ 91
Cash deposited in checking account	(7,244)			(7,244)
Cash deposited at interest	990,138			990,138
Bonds (at amortized cost)	243,509			243,509
Stocks or mutual fund investments (at market)	303,681			303,681
Real estate	2,000			2,000
Premiums and agents' balances and installments:				
In course of collection	5,288			5,288
Deferred and not yet due	32,391			32,391
Investment income accrued		6,135		6,135
Electronic data processing equipment	1,880			1,880
Other expense related assets:				
Reinsurance contingent commission receivable	3,640			3,640
Subrogation	100			100
Other Nonexpense Related				
Federal Income Tax Recoverable	5,425			5,425
Totals	$1,580,899	$6,135	$0	$1,587,034

LaPrairie Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2002

Liabilities and Surplus

Net unpaid losses	$ 14,153
Unpaid loss adjustment expenses	770
Commissions payable	22,088
Fire department dues payable	521
Unearned premiums	194,032
Reinsurance payable	11,342
Other liabilities:	
Expense related:	
Accounts payable	7,125
Total Liabilities	250,031
Policyholders' surplus	1,337,003
Total Liabilities and Surplus	$1,587,034

LaPrairie Mutual Insurance Company
Statement of Operations
For the Year 2002

Net premiums and assessments earned		$283,381
Deduct:		
Net losses incurred	$141,039	
Net loss adjustment expenses incurred	19,632	
Other underwriting expenses incurred	189,294	
Total losses and expenses incurred		349,965
Net underwriting gain (loss)		(66,584)
Net investment income:		
Net investment income earned	59,554	
Net realized capital gains	0	
Total investment income		59,554
Other income:		
Miscellaneous Income		1,502
Net Income (Loss)		$ (5,528)

LaPrairie Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	$1,405,348	$1,396,952	$1,464,597	$1,434,648	$1,459,833
Net income	(5,528)	11,211	(97,469)	60,720	(30,163)
Net unrealized capital gains or (losses)	(62,817)	(2,815)	29,376	(30,951)	4,768
Change in non-admitted assets			448	180	210
Surplus, end of year	$1,337,003	$1,405,348	$1,396,952	$1,464,597	$1,434,648

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2002 is accepted.

Examination Reclassifications

	Debit	Credit
Premiums in course of collection	$ 5,384	
Premiums Received in Advance		$5,384
Total reclassifications	$5,384	$5,384

For more information regarding the reclassification see the Agents Balances and Uncollected Premium balances in the assets portion of Section IV, and the Premiums Received in Advance balance in the liability portion of Section IV.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company maintain minutes of all committee meetings.

   Action—Partial compliance. See comments in the summary of current examination results.

2. Corporate Records—It is also recommended that investment transactions be reviewed and approved at board of directors meetings.

   Action—Partial compliance. See comments in the summary of current examination results.

3. Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets.

   Action—Compliance

4. Loss Claims—It is again recommended that the company inform policyholders of denied claims in writing, regardless of the reasons for denial.

   Action—Compliance

5. Fire Dues Payable—It is recommended that in the future all fire dues payable be properly classified as such.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent period.

The review found that although generally board minutes did record that a director had abstained from voting where there was a potential conflict of interest, in two circumstances the minutes did not record when a director abstained from voting on a motion that would financially benefit that director (holiday bonuses for staff). It is suggested that the minutes record whenever a director abstains from voting on transactions that financially benefit that director.

The review also found that reinsurance contracts were reviewed annually by the board of directors. However, this review was not always recorded in the minutes. It is recommended that the corporate minutes include all matters of business performed and discussed by the board of directors throughout a meeting’s duration.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith." In addition, the agent contract allows agents to use resources provided by the company and defines that all shared resources are the property of LaPrairie. Currently, two agents share office space and resources with LaPrairie.

The prior examination noted that minutes were not being recorded for the adjusting or finance committees. That examination also indicated that investment transactions, aside from keeping the current bank of depository, were not being discussed during board meetings.

During the current examination it was noted that investment transactions were determined by unanimous consent of the finance committee; however, the finance committee did not maintain written documentation. The investment decisions were reviewed in the treasurer’s report to the board of directors, which was then approved by the board.

While these are improvements, the company has not entirely complied with the prior recommendations, because the actions of the finance committee were undocumented. In addition, the board of directors should approve transactions separately from approval of the treasurer's report. Therefore, the company has partially complied with the two prior recommendations and two new recommendations will be made.

It is recommended that approval from a committee be documented in the committee's minutes or in a unanimous written consent of the committee.

It is recommended that the board of directors approve the company's investment transactions in a separate motion from receipt of the treasurer's report.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted.

The company's adjuster/inspector is a part-time employee of LaPrairie. However, the adjuster/inspector also operates his own independent adjusting and inspecting business. This is adequately disclosed on his conflict of interest statements during the examination period.

The company's Secretary-Treasurer of the board of directors has been hired by the company as an office manager. Furthermore, the secretary-treasurer also owns "Weis Insurance Agency", an independent insurance agency. This has been disclosed on the office manager's conflict of interest statements during the examination period. Weis Insurance Agency writes 55% of the company's direct premium and also sells corporate insurance policies to the company.

All agents are subject to an agent agreement which has a non-compete clause and contingencies for the sale of the agency. If an agent's line of business is sold, LaPrairie's board of directors must approve the new owner by a majority vote, or it has the option of buying the agent's La Prairie customer list for 50% of the commissions for three years or until the policies are rewritten, whichever occurs first.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	**Coverage Limits**
Fidelity bond	$80,000
Workers Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	$500,000
Each employee	500,000
Policy limit	500,000
Professional Liability	
Each claim	2,000,000
Aggregate	2,000,000
Deductible	5,000
Directors & Officers Liability	
Each claim	2,000,000
Aggregate	2,000,000
Deductible	5,000
Commercial General Liability	
General Aggregate	1,000,000
Products/Completed operations limit	1,000,000
Personal and Advertising limit	500,000
Each Occurrence	500,000
Fire Damage Legal Liability (any one fire)	100,000
Medical Expense Limit (any one person)	5,000
Commercial Excess Liability	
Aggregate	1,000,000
Self insured Retention (per occurrence)	10,000
Business Auto Coverage	
Liability Limit	1,000,000
Commercial Property	
Building	85,000
Contents	30,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has an inspection procedure for both new and renewal business.

Claims Adjusting

The company indicates that it has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. However, the function of this committee does not appear to be to adjust or supervise the adjustment of losses. Instead, it appears that the committee addresses coverage issues when necessary and the adjustment of losses is the responsibility of the company's part-time adjuster.

It is recommended that the board clarify in the minutes the responsibilities of the adjusting committee each time it is appointed, if the responsibilities do not include adjusting or supervising the adjustment of losses.

The office staff annually reviews loss ratios by agent and compares the figures to the prior three years, taking into account any extraordinary factors (for example, if the majority of one agent's losses were incurred by one windstorm).

It is recommended that the office staff report the year end loss ratios by agent to the board of directors. Any trends (positive or negative) should be noted in the minutes.

Accounts and Records

The examiners' review of the company's records indicated that the company is not in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2002.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements, as securities are held by a custodian.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 550,031
2.	Liabilities plus 33% of gross premiums written	406,958
3.	Liabilities plus 50% of net premiums written	409,650
4.	Amount required (greater of 1, 2, or 3)	550,031
5.	Amount of Type 1 investments as of 12/31/2002	1,297,739
6.	Excess or (deficiency)	$ 747,708

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$982,985.77**

The above asset is comprised of the following types of cash items:

Cash in company's office	$91.24
Cash deposited in banks-checking accounts	(7,243.83)
Cash deposited in banks at interest	990,138.36
Total	$982,985.77

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one bank account. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of ten deposits in ten depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2002 totaled $20,553 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.7% to 6.93%. Accrued interest on cash deposits totaled $3,415 at year-end.

Book Value of Bonds **$243,509**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2002. Bonds owned by the company are held by the company's custodian.

Interest received during 2002 on bonds amounted to $3,639 and was traced to cash receipts records. Accrued interest of $2,498 at December 31, 2002, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$303,682**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2002. Stocks owned by the company are located in a safe in the company's home office.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards to investments made by town mutual insurers.

Dividends received during 2002 on stocks and mutual funds amounted to $16,534 and were traced to cash receipts records. Accrued dividends of $222 at December 31, 2002, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$2,000**

The above amount represents the company's investment in real estate as of December 31, 2002. The company's real estate holdings consisted exclusively of the home office.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company’s real estate has been fully depreciated, except for land which is nondepreciable.

Agents' Balances or Uncollected Premiums **$10,672**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. The company originally reported this asset at $5,288. However, a review of this account determined that the balance was being reported net of Premiums Paid in Advance, instead of reporting the total Agents’ Balances or Uncollected Premiums as an asset and the total Premiums Paid in Advance as a liability. As a result a reclassification was necessary and $5,384 was added to the account balance. This reclassification can be viewed in the Reconciliation of Policyholders’ Surplus section.

It is recommended that the total Agents' Balances or Uncollected Premiums be reported as an asset and that the total Premiums Paid in Advance be reported as a liability, pursuant to Town Mutual Annual Statement Instructions.

Investment Income Due and Accrued **$6,135**

Interest due and accrued on the various assets of the company at December 31, 2002, consists of the following:

Cash deposited at interest	$3,415
Bonds	2,498
Stocks	222
Total	$6,135

Reinsurance Contingent Commission Receivable **$3,640**

This amount was reported as a write-in asset. The company's reinsurance contract allows for the company to receive commissions from the reinsurer contingent upon LaPrairie's loss ratio for liability policies ceded to the reinsurer. This amount was agreed to a statement from the reinsurer.

Subrogation **$100**

Based on the size of this account the amount of testing was determined to be minimal. The amount was traced to a subsequent deposit slip.

Federal Income Tax Recoverable **$5,425**

This amount was traced to the company's tax return.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$14,153**

This liability represents losses incurred on or prior to December 31, 2002, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$114,653	$161,092	$(46,439)
Less: Reinsurance recoverable on unpaid losses	100,500	150,000	(49,500)
Net Unpaid Losses	$ 14,153	$ 11,092	$ 3,061

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2002. To the actual paid loss figures was added an estimated amount for those 2002 and prior losses remaining unpaid at the examination date, if any. The above difference of $3,061 was not considered material for purposes of this examination and therefore no adjustment will be made to the insurer's surplus.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

A recommendation from the previous examination addressed the company's responsibility to inform policyholders of denied claims in writing. The insurer was found to have complied with the previous recommendation.

Unpaid Loss Adjustment Expenses $770

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2002, but remained unpaid as of year-end. The methodology used by the company in establishing this liability is based on a ten-year average adjusted for extraordinary events.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$ 194,032**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$11,342**

This liability consists of amounts due to the company's reinsurer at December 31, 2002, relating to transactions which occurred on or prior to that date.

Individual Occurrence of Loss Premium	$ 1,588
Aggregate Excess Reinsurance Premium	4,959
Nonproperty Reinsurance Premium	4,248
Facultative Reinsurance Premium	532
Earthquake	15
Total	$11,342

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Fire Department Dues Payable **$521**

This liability represents the fire department dues payable at December 31, 2002. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

A recommendation from the previous examination report was made under this section. The recommendation stated simply that Fire Department dues be properly classified. The company appears to be in compliance with the previous recommendation.

Commissions Payable **$22,090**

This liability represents the balance payable at year-end for commissions to agents. Supporting records and subsequent cash disbursements verified this amount to be fairly stated.

Accounts Payable **$7,125**

This liability primarily represents accruals for the company’s employee pension plan.

Premiums Received in Advance **$5,384**

This amount was reclassified from Agents' Balances and Uncollected Premium. Information pertaining to the reclassification can be referenced in the Agents' Balances and Uncollected Premium section or the Reconciliation of Policyholders' Surplus section.

V. CONCLUSION

As of December 31, 2002 the company had total assets of $1,592,418 and Policyholders' Surplus of $1,337,003. Policyholders' Surplus decreased from the last examination by $122,830 or 8.41%.

The examination report made five recommendations and one suggestion. These items can be summarized as:

1. Maintenance of corporate records – three recommendations, one suggestion
2. Establishing procedures for adequate review by the Board of Directors of underwriting and claims – one recommendation
3. Maintenance of the company's general ledger – one recommendation

The first two subjects are primarily issues of corporate governance and management, and the third subject addresses accounting issues. One reclassification was made, and as a result increased total assets and total liabilities. No adjustments were made to Surplus.

The company was found to have complied or partially complied with all of the recommendations from the previous examination report.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Corporate Records— It is suggested that the minutes record whenever a director abstains from voting on transactions that financially benefit that director.

2. Page 13 - Corporate Records— It is recommended that the corporate minutes include all matters of business performed and discussed by the board of directors throughout a meeting's duration.

3. Page 14 - Corporate Records— It is recommended that approval from a committee be documented in the committee's minutes or in a unanimous written consent of the committee.

4. Page 14 - Corporate Records— It is recommended that the board of directors approve the company's investment transactions in a separate motion from receipt of the treasurer's report.

5. Page 16 - Claims Adjusting— It is recommended that the board clarify in the minutes the responsibilities of the adjusting committee each time it is appointed, if the responsibilities do not include adjusting or supervising the adjustment of losses.

6. Page 21 - Agents' Balances and Uncollected Premiums— It is recommended that the total Agents' Balances or Uncollected Premiums be reported as an asset and that the total Premiums Paid in Advance be reported as a liability, pursuant to Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Jean Suchomel of the Office of the Commissioner of Insurance (OCI), State of Wisconsin, participated in the examination:

Respectfully submitted,

Bill C. Genné
Examiner-in-Charge